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ABSTRACT

This third special report of the National Commission for Manpower Policy provides information regarding the ways that European nations were dealing with complex manpower problems similar to the ones faced by the United States during the recession of 1974-1975. Following a brief introductory section, section 2 reviews the methods used by the Western European countries during the recession to maintain incomes and to help maintain job attachments. The third section examines expansionary measures employed by the industrial nations during the recession, including traditional measures, employment emphases in industry and regional policies, incentives for job creation, and active manpower policies for training and mobility. The concluding section presents twelve constructive innovations and policy tendencies observed in the recession experience to date. (EM)

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Recent European Manpower Policy Initiatives

U.S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE
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A Special Report
of the
National Commission
for Manpower Policy
November 1975

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Recent European Manpower Policy Initiatives

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Special Report #3

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FOREWORD

The political memory of a nation is too short to prevent it from repeating experiments that it had earlier embarked upon but whose outcomes had not been used to inform policy and programming. Hence, efforts are repeated that earlier were proved faulty, or approaches are neglected that were tried and proved efficacious. Similarly, nations are acutely ethnocentric and believe their problems to be unique and, therefore, fashion policies and programs that are backed only by their own experiences. They pay little or no attention to what goes on beyond their borders. While new forms of international cooperation such as the Organization for Economic Cooperation and Development (OECD) have helped to lower the isolationist index, it still remains high.

The National Commission for Manpower Policy from its inception built into its work plans approaches directed at tapping the experience of other advanced industrial societies in the belief that such efforts would prove constructive in helping the Commission to avoid reinventing the wheel while alerting the Commission to those wheels that were defective. Accordingly, in the early summer of 1975 the Commission arranged for Charles Stewart, an experienced manpower specialist with long-term foreign experience, to reconnoiter the countries of Western Europe for the purpose of ascertaining what old and new approaches they were employing to cope with their steeply rising unemployment. Mr. Stewart provided a preliminary overview of his findings at the September meeting of the Commission, to which references can be found in the Commission's First Annual Report to the President and the Congress (October 1975).

At this time, the Commission is pleased to make public Mr. Stewart's completed final report, which, it must be emphasized, represents a once-over review of the widely diversified experience of Western European nations as of the late summer of 1975, as seen through the eyes of an experienced student of manpower policy. No one who reads his report can fail to be informed by it. I will restrict myself to calling attention to those findings and observations of Mr. Stewart that appear to have the greatest relevance to the United States as it seeks to improve its manpower programming.

A few general comments. The Western European countries are bedeviled by the same general forces that have been causing the substantial shortfall in the performance of the American economy--rapid inflation, rising budget deficits, unacceptable and worsening levels of unemployment, accelerating difficulties in absorbing young people into productive employment, balance of payments problems, and excessively high employment in selected industries and regions. A careful reading of Mr. Stewart's report suggests that the present recession has substantially narrowed the gap between the manpower experience of the United States and that of most Western European nations. While our unemployment rates still exceed theirs, the differences have of late grown considerably smaller.

The parallels are not limited to the underlying conditions and include many policy responses. For instance, in both the United States and Western Europe:

- Unemployment insurance has been the first line of defense against rising unemployment;

- Large governmental deficits, in the face of continuing inflationary pressures, have acted as a brake on the launching of strongly expansionary programs; and

- Little enthusiasm has been manifest for either emergency public works programs or for large-scale public employment programs.

The reader of the report will find many additional parallels, but the real value of the report is to alert Americans to the approaches that European nations have pursued that differ in conception or scale from the policy directions that we have been following. I note the more important ones below:

- Several countries, including Germany, France, the Netherlands, and Italy, have moved energetically to "spread the work" by encouraging employers to reduce hours of work rather than to discharge workers. They have used government funds to help employers maintain their work force while compensating workers for loss of earnings.

- The United Kingdom, France, Ireland, and Belgium, among others, have resorted to greater use of "redundancy schemes," which provide substantial lump-sum payments for workers who lose their jobs. Closely related efforts are directed to speed

support systems for older workers who are unlikely to find new employment before they become eligible for a pension.

In consonance with the greater importance that they have long ascribed to skill training, several countries, including in particular, Germany, the Netherlands, and France, have sought to expand training and retraining opportunities--an approach that Sweden also pursues as its unemployment rate increases.

- Germany, France, and Ireland have moved aggressively to provide temporary wage subsidies for employers who have hired additional workers from among the unemployed.

- In several countries (especially the United Kingdom, France, the Netherlands, and Italy) long-standing efforts to impact regions and industries that face severe structural problems have been expanded via different forms of governmental support, including investment and tax credits and wage subsidies.

Even this cursory review of the aramentarium of measures that the countries of Western Europe have used to combat high unemployment suggests that the United States should consider, more carefully than it yet has done, the potential value of the following additions to its evolving manpower structure:

- The use of unemployment insurance funds to help employers to adjust to a severe recession by spreading the work among their employees with the aim of reducing the numbers who must be discharged;

- The desirability of introducing some transitional support system for older workers who lose their jobs and who are a few years short of qualifying for Social Security;

- The greater reliance on basic and advanced skill training, especially for young workers, during periods of high unemployment;

- The possibilities of using wage subsidies to maintain or increase employment without placing too great a strain on the budget and without jeopardizing existing labor standards or contributing to unfair competition; and

- The design of program instruments directed toward alleviating severe structural unemployment in selected areas and industries.

There is more in Mr. Stewart's detailed account of recent macro-manpower developments in Western Europe than has been abstracted above. But even this summary should make the important point that the United States can profit from a careful review of the European experience, in terms of both what is working there and what has been tried despite equivocal results. In both instances, it is better for the United States to be informed than to move ahead without prior knowledge.

For helping to inform us of what we need to know and can profit from, the Commission expresses its thanks to Mr. Stewart for his useful overview.

Eli Ginzberg

ELI GINZBERG
Chairman

CONTENTS

		PAGE
	FOREWORD	i
I.	INTRODUCTION	1
II.	THE DEFENSIVE STRATEGY IN THE FIRST PHASE OF THE RECESSION	3
	A. Maintaining Incomes For the Unemployed	3
	1. Strengthening Unemployment Compensation Systems	3
	2. Complementary Income Maintenance Measures	5
	B. Maintaining Job Attachments	7
	1. Benefit Systems for Reduced Hours of Work	7
	2. Rescue Operations for Weak Firms and Sectors	10
	C. Restricting the Supply of Foreign Workers	11
III.	EXPANSIONARY MEASURES UNDER CONTINUING INFLATIONARY CONSTRAINTS	15
	A. Traditional Recession Measures	16
	1. Public Works and Emergency Relief Projects	16
	2. Fiscal Incentives for Private Industry	19
	B. Recent Employment Emphases in Industry and Regional Policies	20
	C. Recession-Induced Incentives for Job Creation	24
	D. Active Manpower Policies for Training and Mobility	27
IV.	SUMMARY AND CONCLUSIONS	33
V.	STATISTICAL APPENDIX	39

I. INTRODUCTION

One of the major purposes of this review, initiated in late spring of 1975, was to determine how responsive manpower and labor market policy was in the first phase of the recession to the needs of general economic policy in the various European countries. The conclusion seemed quite clear at midyear that labor market measures for income and job security had proved highly effective in serving current deflationary macro policy by softening its social impact and by enabling governments to pursue that policy despite the unprecedented postwar unemployment. The role of manpower policy was, however, essentially defensive. Given the situation, it was hardly to be expected that selective measures on either the supply or demand side, while not absent, could make any critical contribution to reducing inflationary pressures or to increasing employment except in certain countries, notably Sweden, which was out of phase and only marginally affected by the recession.

The main intent of this paper is to provide a brief survey of the variety of employment measures utilized or introduced in Western European countries in 1974 and 1975 in response to the economic and social needs of national policy, both cyclical and structural, in the current recession. It is not possible to do this country by country in a brief survey, although the approach attempted to understand how the individual countries perceived their situation and their manpower strategy in the context of general short and medium-term policy. Instead, the survey attempted to identify the main lines of policy emphasis common to most countries as macro policy shifted from one of priority for curbing inflation to one of priority for the problems of employment despite continued strong constraints to avoid rekindling inflation.

For this summarization of European manpower and employment policy developments from the spring of 1974 to the late fall of 1975, manpower policy is broadly conceived in terms of its links to macro and sectoral policies of governments; neutrality is maintained with respect to the locus of policy-making or administrative responsibility, or the varying institutional relationships of governments to industry and labor in collective bargaining or the subordinate units of governments. Industry or regional policies involving tax incentives and subsidies for private investment, where pertinent to cyclical or structural manpower policy, are within the purview of this survey, as are expenditures for public works and public investment, and transfer payments for income maintenance and for job

security. Income policy as such is generally excluded from this review, except for the reminder that "active manpower policy" had its origins in efforts to devise a noninflationary demand-management policy for full employment without wage or price controls.

As 1975 comes to a close there are at best few signs of economic recovery in Western Europe as unemployment continues to rise (see Statistical Appendix). During 1975, policy priority in most countries except the United Kingdom gradually shifted from an earlier preoccupation with combating inflation to a generally more expansionary policy. Both price and labor market developments, however, have been less favorable than hoped for in the succession of revised forecasts during the past year. Thus, most European countries continue to be in the awkward position of edging toward more expansionary policies because of rising unemployment while attempting to hold to a policy of relative constraint because of fear of rekindling inflation. Heavy expenditure costs for maintaining incomes and for saving jobs in weak firms and sectors and revenue losses incurred by a recession of longer duration than anticipated resulted in budgetary constraints and, quite possibly, a hold-back on newly announced expenditure programs.

II. THE DEFENSIVE STRATEGY IN THE FIRST PHASE OF THE RECESSION

Throughout the difficult developments in the initial phase of deflationary macro policy, manpower measures in those industrial countries severely affected by the recession were essentially defensive in response to the special aims of current demand management. Aside from early curtailment of in-migration of foreign workers, the chief policy instruments were transfer payments for maintaining incomes for the unemployed and public expenditures to maintain job attachments endangered by cyclical and structural developments.

A. Maintaining Income for the Unemployed

Unemployment compensation came into play automatically, and redundancy benefit systems of one kind or another were already in place as part of national policies to deal with cyclical and structural unemployment as experienced in the postwar years. Governments, however, also undertook new measures at the onset of the severest recession since the thirties to establish and implement a labor market policy relevant to the new situation. New statutory measures were taken for consultative arrangements with industry, and policy declarations were issued: for joint efforts for minimizing dismissals; for sharing work; for devising alternatives other than unemployment for redundant workers; and for improving income maintenance for the unemployed and others affected by the continuing rise in the cost of living.

1. Strengthening Unemployment Compensation Systems

Other than in France there was little that was particularly remarkable in the strengthening of unemployment compensation systems--the first prong of the defensive manpower strategy--except the universality and vigor of the development and a strong tendency to raise the wage-replacement ratio. Since benefit levels had lagged behind living costs, they were substantially increased, and indexation became widely prevalent. Duration of benefit payments, eligibility, and coverage were extended because of the severity of the recession, but triggering devices were regarded as less flexible, given European governmental procedures, than ad hoc discretionary action.

What was remarkable, however, was the extent to which the benefit systems were changed to serve social policy objectives going beyond the traditional labor market and income stabilization functions of unemployment compensation. The effect was to treat special groups, or individuals in different circumstances, in a differential fashion. This is not altogether new, of course; for example, unemployment benefits commonly vary according to the number of dependents.

For some years in France the Special Unemployment Benefits under the various private plans between the Conseil National du Patronat and the trade union federations differentiated on the basis of age with respect to both degree of income replacement and duration of benefits.

The new French Interim Supplementary Allowances, however, under the privace Agreement of October 14, 1974, and reinforced in the Act of January 3, 1975, created a new "special group"--employees dismissed for economic reasons--and provides for wage replacement of 90 percent for one year (inclusive of other private and public unemployment benefits). The essential condition for entitlement is official certification that the dismissal is for "economic reasons of a cyclical or structural nature entailing cancellation of post." By the end of 1975 it is estimated that these benefits will apply to about 150,000 workers, or about one-eighth of the unemployed.

For workers over 60 years of age at time of dismissal or who become 60 while receiving benefits, an income guarantee scheme replaces the former supplementary waiting allowance under the basic private unemployment program. With ten years' paid employment, the over-60 dismissed workers are entitled to a 70 percent income guarantee until payment of retirement pension; those under 60 at time of dismissal receive 70 percent wage replacement for one year (following one year entitlement at 90 percent) and 40.25 percent for one additional year.

This recession-created Supplementary Allowances scheme for workers is of further interest in view of the growing concern in Europe as to the disincentive effects of high wage-replacement benefits now prevailing. After the first three months of

benefits under this French scheme for workers covered by collective agreements, eligibility for continued benefits is reviewed at quarterly intervals, the review taking into account the individual's possibilities and efforts for obtaining employment, job offers made to the recipient, and vocational training courses proposed or being taken.

In other European countries various changes in unemployment compensation systems have directly or indirectly benefited the less advantaged groups on the labor market. The extended duration of eligibility for benefits has had the effect of favoring the "hard-to-employ" groups. More specifically in some countries, eligibility has been extended to include marginal groups with limited or no coverage under existing contributory systems in the organized sectors of the labor market; present measures in Austria, Belgium, Finland, and Norway have special applicability to older workers, and in Sweden to handicapped workers as well. Young workers in Luxembourg are special beneficiaries of the revocation of the previous requirement limiting eligibility to those with more than 200 days' employment in an enterprise.

2. Complementary Income Maintenance Measures

Complementary income maintenance measures have taken numerous forms, but in the current recession the most distinctive is benefits for short-time work, often referred to as "partial unemployment benefits." This subject is discussed in the following section of this report as an instrument for maintaining job attachments. Some income maintenance measures are beyond the scope of this paper, although they are within the defensive strategy of governments in this recession--e.g., the increases in social benefits of all kinds, the easing of eligibility for disability retirement, and changes in public assistance programs. Financial assistance to maintain employment in enterprises in economic difficulties, subsidies and other incentives for job creation by private firms, and transfer payments for training are also dealt with in appropriate contexts elsewhere in this report.

Brief mention may be made, however, of certain innovations or tendencies common to many countries. Alongside public income maintenance measures, severance allowances (the "Golden Handshake") have been extensively used by enterprises to induce voluntary retirements of redundant salaried employees, especially at managerial levels, in organizational shakeups occasioned by contraction of activities in the recession. Under collective agreements in certain countries, as in France and the Netherlands, measures have been taken to avoid too sharp an immediate adjustment in wages for workers who have been shifted to lower-paying jobs as a result of mergers or reorganizations of enterprises. Denmark authorized local authorities to assist redundant house-owning workers with loans from public funds when their current incomes were substantially lower than they were before elimination of the workers' previous positions.

Redundancy schemes providing lump-sum severance payments to workers dismissed in situations involving structural change remain the major companion measure, complementary to and sometimes overlapping unemployment compensation systems. These schemes were developed largely in the sixties to promote productivity bargaining, as in the United Kingdom, or to overcome resistance to and to facilitate, as in France and elsewhere, structural adjustments (mergers, reorganizations, etc.) in the process of modernization and economic growth. One-time lump-sum payments to workers whose positions were abolished were usually based on age, length of service, and average earnings. In the United Kingdom they have been paid in recent years to roughly 200,000 redundant workers annually at a cost of about 100 million pounds (about $200 million U.S. dollars), with over half paid by the Redundancy Fund and the rest by employers.

In 1974-75 various actions were taken to adjust redundancy schemes to current circumstances. The United Kingdom doubled redundancy payments to 2,400 pounds ($4,800) and created a fund to guarantee wages owed workers in case of insolvency and closures. In Ireland the lump-sum redundancy payments were supplemented by weekly benefits up to 100 percent of preredundancy pay. The Belgium scheme was modified to extend redundancy payments to cover redundancies resulting from restructuring of enterprises as well as closures,

and to set up a system of reconversion pay to top-up redundancy payments and unemployment benefits to guarantee 100 percent of the previous wages for one year (or 18 months in some cases). The Austrian redundancy scheme, currently applying only to redundant mine workers under 55, provides substantial lump-sum payments to facilitate adaptation to other employments; an early retirement plan is similarly limited so far to unemployed older miners.

Other measures for maintaining incomes of persons particularly subject to joblessness in the current recession were developed in various countries--e.g., preretirement schemes in Spain, Sweden, and France. In Finland workers 60 to 64 years of age without jobs for extended periods were made eligible for Unemployment Pensions until their regular pensions were due at age 65. Similarly in Belgium, collective agreements were developed to maintain "decent" incomes for workers over 60 not yet retired, with the aid of special compensation for periods of unemployment. By the decree of June 5, 1975, France amended its public assistance system to provide financial aid for recent school graduates at least 16 years of age and for youths 16 to 25 who are registered for jobs and who are indispensable for family support.

B. Maintaining Job Attachments

A second prong in the defensive strategy of the European countries in the first phase of the recession was primarily to maintain job security--i.e., job connections --to minimize unemployment by the sharing of work, and through government subsidies to maintain employment in enterprises threatened by large-scale dismissals or closures. This was the main aim of government consultations with employer and worker organizations during this period.

1. Benefit Systems for Reduced Hours of Work

The principal new (or strengthened) instruments for this purpose were schemes to compensate workers for reduced hours of work or, in some cases, for short temporary layoffs, in order to avoid dismissals for some part of the enterprises' work force. Both employers and unions have shown a preference for partial payments for short-time work to layoffs definitifs for workers other than those eligible (in increasing numbers) for disability retirement or for prepension schemes. While such payments are

quite commonly called "partial unemployment benefits," the main aim is not income maintenance as such but, in the current situation, minimizing the risk of large-scale dismissals and loss of job attachment. This has particular significance in most European countries, where there is a traditional preference for job security as against job mobility and where layoffs have ordinarily meant dismissal and a break in the employer-employee relationship. One only needs to recall the reaction to temporary or indefinite layoffs by American firms in Europe in the postwar years.

There is little question that the proliferation of short-time benefit schemes for reduced hours of work, whether viewed by governments as an income or a job security measure, helped to curb the rise in unemployment throughout Europe in the first stage of the recession, and was an essential part of the tradeoff in government efforts to persuade employers to maintain their work forces with minimum resort to dismissals.

The rise in unemployment, explosive as it was, proved a less sensitive indicator of the impact of the recession on the labor market than did the increase in the number of short-time workers--at least through the spring of 1975. In Germany from May 1974 to May 1975, the number of short-time workers increased by more than 300 percent, from about 225,000 to 925,000, while the number of wholly unemployed rose from about 450,000 to 1,000,000, or about 125 percent. Similarly in France, while the unemployed rose from about 400,000 to 750,000, less than 100 percent, there was an increase in short-time workers from about 70,000 to more than 300,000, or over 325 percent. In the Netherlands the number of short-time workers rose 10 times as rapidly as the unemployed.

Benefit systems for short-time work already in existence in a number of countries were modified in light of the prevailing situation. In Germany the Employment Promotion Act of 1969 compensated workers for 68 percent of their temporary production stoppages or work schedules below normal standards. In 1974 eligibility for short-time benefits was extended from 6 to 12 months (and

under varying circumstances in different sectors or areas up to 24 months) in furtherance of government policy for employers to keep workers on their payrolls rather than to resort to dismissals.

Governments in other countries also provided financial support to short-time work schemes. In Italy the Wage Supplement Fund of the Cassa d'Integrazione Guadagni is the chief instrument of cyclical and structural labor market policy. In "ordinary circumstances" under the 1968 Act, the Cassa finances income replacement at 66 percent of normal earnings for up to 16 hours per week for 3 months. In the "special circumstances" of the current situation the special procedure of the Act, providing 80 percent compensation, is applicable where the Cassa determines that the firm is viable and in difficulties only because of the recession. The wage supplement is also paid for temporary suspension of work in cases of extraordinary sectoral or local difficulties or reorganization of enterprises.

In France since January 1975, the government's commitment is to cover 90 percent of the cost of enterprises under the 1969 collective agreement by financial arrangements between firms and the National Employment Fund, to help ensure a 50 percent hourly wage replacement rate and a floor of 7 francs ($1.57) for a maximum of 470 indemnifiable short-time hours. Since the beginning of 1975 Luxembourg finances short-term allowances equal to 80 percent of normal gross salary for workers in enterprises working less than 50 percent of normal work schedule, after the 17th hour lost by the worker.

Other variations of the scheme are to be found in other countries. In Norway daily allowances for short-time work are used to favor older workers: eligibility for benefits continues for 21 weeks for persons under 50; for 30 weeks for those between 50 and 64; and without limit for those between 64 and 66 years of age. In Austria reduced-hours benefits are paid for three months and employers are required to maintain employment levels for three subsequent months; a higher wage-replacement is paid for training than for short-time benefits.

In the Netherlands various new initiatives have been taken to foster job sharing and income maintenance. Reduced hours of work, which require governmental approval, are compensated fully for a limited number of weeks, financed on an 80-20 percent basis by an industry's insurance board and the company under existing collective agreements; if the reduction of hours of work is extended for longer periods, the government also becomes a contributor. When implemented, the Employment Protection Act of 1975 in the United Kingdom will provide income guarantees for five days in any one quarter, subject to a ceiling of 6 pounds per day ($12), about one-half the daily average wage.

2. Rescue Operations for Weak Firms and Sectors

What is new in the current situation in the use of subsidies for political and economic policy purposes is their scale and openhandedness in several countries for the immediate aim of maintaining enterprises and jobs. A reading of the daily newspapers suggests their proliferation, but it would take an analysis of national budgets to appraise their magnitude. No brief summary--or representative case studies--of these ad hoc actions is possible within the scope of this paper.

The resort to subsidies to maintain jobs by preventing enterprises from going under, in response to cries for help from companies, unions, and communities, has varied from country to country, being most extensive probably in the United Kingdom and least so in Germany, reflecting both differences in circumstances and ideologies. Between these extremes are the measures taken in the Netherlands, France, Belgium, Italy, Ireland, Finland, and Norway for financial aid to meet immediate liquidity problems of enterprises or to facilitate reorganization and mergers, with varying concern for eventual viability or international competitiveness.

Financial assistance has taken various forms, including outright grants or soft loans for both private and public enterprises, changes in tax regulations to improve liquidity, and equity participation to avoid closures or to facilitate restructuring or consolidation. The Netherlands and Ireland among others have temporarily taken over enterprises facing bankruptcy to give time for orderly transfer of workers to other employments or to provide new managements with financial incentives, advance orders, or retraining of

workers for conversion of plant capacity to other lines of production.

Perhaps the greatest problem in assessing the role of ad hoc rescue operations is the difficulty in distinguishing between subsidies taken to maintain enterprises and employment at whatever cost from subsidies compatible with medium-term public investment objectives (see Part III). Picking winners while avoiding losers is no easy task for governments, given the structural elements in a cyclical downturn of the magnitude of 1974-75.

Public investment expenditures as part of ongoing industry and regional policy, possibly accelerated during the period of budgetary constraints, become increasingly relevant for job creation as macro policy becomes more expansionary.

C. Restricting the Supply of Foreign Workers

Taken at face value, the measures to restrict immigration and employment of foreign workers at the on set of the recession were plainly part of a defensive labor market strategy. Yet a case can be made for the view that the recession simply brought to a head changes in migration policy that were developing out of a complex set of social and labor market considerations--the occasion for, but not the fundamental motivation for, the end of perhaps the most significant labor market phenomenon in postwar Europe.

Preceding the recession in 1974, restrictions were imposed, particularly in the countries of the European Community, for social policy reasons. The huge influx of foreign workers from Italy, Spain, and Portugal, from North Africa, and from Turkey, Greece, and Yugoslavia--indispensable for the rapid economic growth of the industralized countries--had required burdensome yet inadequate infrastructure expenditures. Heavily concentrated in particular employments and geographic areas, the presence of large and mixed foreign populations created social tension and problems of cultural adjustment for both the "host" countries and the "guest" workers.

Nonetheless, it is quite evident that the threatened large-scale unemployment of country nationals in 1974 occasioned the strengthening of prerecession regulations

limiting immigration in the United Kingdom, the Netherlands, Belgium, and elsewhere. Recruitment was stopped in Germany in November 1973, and immigration from outside the Community was cut off in France in July 1974, immediately upon the first signs of rising unemployment in these two countries with the largest foreign work forces in Europe. Germany quite plainly stated that its action was to promote job opportunities for its nationals, and ordered priority in job placements to be given to German workers and permitted work permits to be extended only if no German nationals wanted the jobs.

The quantitative effects of these restrictive measures on the size of foreign populations and on the total supply and employment of foreign workers are not clearly known. The view of competent experts is that the return of foreign workers to their home countries is considerably less than that caused by the recession of 1966-67 or expected by the home countries. In any event, nowhere is immigration completely shut off, Switzerland being an interesting case, or nowhere is return migration compelled, and the "family reunion" trend of recent years is seemingly continuing. The latter has been stimulated in Germany by its reduction of social benefits to dependents in home countries, introduced partly for budgetary reasons but also to reduce the disruptive effects of dependents' benefits on low-wage labor markets in the emigration countries.

A negative social aspect of the priority being given to country nationals is the high likelihood, or potential effect, of shifting the burden of unemployment upon foreign workers. To date the differential in unemployment rates is smaller than anticipated; only fragmentary information, however, has been available since late spring. Meanwhile, foreign workers appear disposed to wait out the recession for the same reasons, chiefly although not solely economic, that induced them to migrate in the first instance.

For the future what is significant is not the restrictive measures of the recession, but policy changes now under consideration in both the immigration and emigration countries. The current policy debates in the northern countries suggest constraints on immigration in the future, premised on some view of the capacity of social accommodation if the ratio of foreign workers exceeds certain limits, or if foreign populations are highly

localized. At the same time the need for foreign workers as recovery gets underway is acknowledged; some hoarding is no doubt taking place. For social reasons, as in France, a gradual replacement of foreign workers is an objective, recognized as requiring, however, an improvement in conditions of work and wages in those occupational or industrial sectors in which (even in the current recession) nationals are indisposed to work. Otherwise, legal or illegal immigration is expected to continue on a not insubstantial, if reduced, scale as a fact of economic life so long as large disparities in economic opportunity remain between the emigration countries of the south and the immigration countries of the north.

III. EXPANSIONARY MEASURES UNDER CONTINUING INFLATIONARY CONSTRAINTS

So far this report has dealt with the immediate policy measures in the first year of the recession to maintain incomes and to contain the decline in employment while macro policy (the United Kingdom and Ireland being exceptions) gave first priority to combating inflation. The second part of this report deals with employment-creating measures that, while not absent in the first stage, had a minimal role under the circumstances of the times.

During the first half of 1975, there were mixed reports of a gradual shifting to relatively more expansionary macro policies. As the recession deepened, employment objectives began to have a higher political priority than did further containment of inflation, and there was some slowing down in the upward movement in prices. Reference was made by the economic authorities to the easing of monetary policy. Rising budgetary deficits were pointed to as further evidence of a shift from deflationary to expansionary policies. At the same time, an observer of the European scene could not escape noting that growing deficits resulted in continuing budgetary constraints on expansionary initiatives.

Despite official pronouncements, it is not possible to pinpoint in Europe as a whole or in any particular country a decisive turning point from a policy of contraction to one of expansion. Nor can it be said, with the possible exception of Germany, that by the late fall of 1975 the recession had bottomed out or, with any confidence, that recovery was underway. During the fall months of 1975, however, most major countries except the United Kingdom announced new expansionary initiatives. It is against this background that attention is now directed to expansionary employment measures that may be expected to have a larger role in employment strategy than they have had to date.

Reference first will be made to traditional recession measures--public works projects and tax reduction and related fiscal relief to business enterprises; second, to the potentialities of public investment for employment in industry and regional restructuring programs; third, to innovations reflecting a growing interest in temporary wage subsidies to stimulate an upturn in employment; and fourth, to the continuing importance of active manpower measures for training and mobility in the recovery process.

A. Traditional Recession Measures

1. Public Works and Emergency Relief Projects

During the first phase of the recession, expenditures were generally increased for public works, emergency relief employment, and public service employment. Being selective in character, such expenditures could be directed to aid areas, industries, or groups hardest hit by unemployment, thus serving as useful adjuncts to the measures for income and job security in the defense strategy of 1974-75.

Judgment should be reserved, but the impression to date is that such measures have played, and are likely to play, a smaller role than in the past. Why this is so reflects a number of factors, including, through mid-1975 at least, the original deflationary constraints, current deficits from expenditures for maintaining incomes and jobs, and the success of these measures in stabilizing the sociopolitical situation.

More fundamentally, there developed during the successive postwar recessions a growing skepticism as to the utility of large-scale countercyclical public works programs, because of their slowness in implementation and unwanted reinforcement of expansionary or inflationary tendencies in the upswing. In the special circumstances of the present recession, there is the additional difficulty that despite the poor condition of the building industry and the surpluses of construction workers, public works affect sectors of the labor market highly sensitive to rising wage and material costs. In addition, there is the view that ongoing public investment programs, in principle, presumably represent higher public priorities than postponable public works projects held in reserve.

What makes any evaluation of the importance of traditional public works and related emergency relief projects uncertain is, in part, the difficulty in distinguishing appropriations for these selective emergency projects from those for continuing public investment objectives.

Generally, increases were projected for public works of both varieties in the 1974-75 budgets; to what extent they were actually spent is difficult to determine. Prior to the Chancellor's budget pronouncements curtailing public expenditures in the United Kingdom, employment in the construction industry was to be helped by an increase of 350 million pounds. One of the few expansionary measures during the deflationary period in French economic policy was the action in January 1975 to accelerate the spending of funds in the 1975 budget for buildings and public works. At the turn of the year the Government Council of Belgium decided to ensure that the 1975 budget for public works would be utilized and to enlarge the state contribution to local authorities to encourage selective projects to relieve unemployment. In Denmark public relief works were largely confined to the forest and dunes services and to construction for the military. In Ireland the expansionary capital budget of April 1974 was subsequently reinforced; presumably, these funds were to be used selectively for emergency employment as well as for medium-term structural objectives.

Emergency job creation under the Employment Promotion Act of 1969 in Germany is relatively limited, being regarded as exceptional to the basic emphasis of the Federal Labor Institute on influencing the supply side of the labor market through training, placement, and mobility measures. Funds for "job procurement in the public interest" by the Institute were increased and the terms of grants to local authorities (and optionally to private firms and nonprofit organizations) were relaxed. By mid-1975 only an estimated 10,000 unemployed were provided jobs, of which about 15 percent were white-collar workers in PSE-type projects; expenditures were restricted by the near exhaustion of the Institute's Reserve Fund. But at the same time, appropriations for public investment funds were substantially increased in September and December 1974 in actions taken to "safeguard employment" and for "stable economic expansion," despite the concern to avoid compromising German stabilization policy. To what extent these projected public investments were held back in 1975 by the growing worry over rising budget deficits, is difficult to determine.

Perhaps of all the European countries, the Netherlands pursued the most active, variegated and--relative to its size--costly emergency employment measures, with an emphasis on the unemployed in its secularly declining industries and its underdeveloped regions and requirements for structural change.

Little touched by unemployment through 1975 but with gloomy prospects for 1976 in the absence of a revival in world trade, Sweden has had at hand--as part of its labor market preparedness policy, which must be regarded as highly adequate-- selective demand measures to keep unemployment in check. The project reserve for public relief work is sufficient for the National Labor Market Board to employ an estimated 40,000 persons in local areas for most of a year. Additionally, the government anticipates the use of accumulated funds for projects in the Public Buildings Reserve and to advance government procurement orders to enterprises in particular areas. Finland, also relatively late in experiencing recession-induced unemployment, increased expenditures late in 1975 for medium-term public investment and selective emergency projects.

Public service employment schemes have apparently played a small role in the recession, and related community projects are of more interest for their suggestive value as selective measures than for their scale of operations.

The Netherland's Temporary Employment Scheme, started in 1973, provides jobs, especially in public, social, and cultural services, for unemployed with special qualifications, for six months to a year for 4,000 hard-to-place persons. For workers under 45 years of age, unemployed for more than six months, temporary employment in public or quasi-public agencies are provided for periods not exceeding six months; for unemployed workers over 45 no waiting time is required and public service employment is extended to a full year or more. One in three persons placed under this program are reported to find private jobs before or upon completion of their temporary jobs.

The Community Industry Scheme in the United Kingdom has been expanded to provide for more than the 2,000 job places in 1974 for young people on social or environmental projects in a program managed by a tripartite board, including representatives of youth organizations. In Northern Ireland expenditures have been increased for similar types of projects for long-term unemployed unskilled workers.

Very few other public service employment programs are reported except on a small scale in Germany, as mentioned above, and the ready-at-hand Swedish "active works" program for temporary employment for white-collar workers. At midyear, France accelerated recruitment for 15,000 currently budgeted positions in educational and public communications services. Generally, public employment became increasingly attractive in the European countries, but data are not at hand to determine whether, given budgetary constraints, there has been any significant change in either direction.

Beginning early in the second half of 1975, with recovery still not in sight and with unemployment continuing to rise, new expansionary public works measures were announced by France, Germany, Italy, and the Netherlands, as well as Finland. While activity in general continued to decline in industrial and commercial construction, the European Community in October reported some pickup in the public works sector.

2. Fiscal Incentives for Private Industry

The wide variety of fiscal incentives, such as investment credits, depreciation allowances, and reduced profit taxation--together with wage subsidy schemes considered in a later section and the ad hoc grants and loans to firms in financial distress considered previously--had little effect in inducing any substantial volume of private investment or in reversing its decline in 1974-75. To what extent these measures facilitated modernization or new

technology for improved international competitiveness in the recovery to come, remains to be seen.

With large unused productive capacities and inventories; with falling export demands especially within the European Community; with little evidence of a change in consumption propensities except for some indications in expenditures for automobiles in Germany, the Netherlands, and perhaps France, European industry was still waiting for a more expansionary macro policy and for increased exports with the incipient recovery in the United States and Japan.

In addition to these financial aids, France and Sweden have special investment reserve funds for making capital available, or rather returning it, to private industry during recessions for investment purposes. Under the long-standing Swedish Reserve Fund, business enterprises may set aside 40 percent of annual profits tax free, about half of which is deposited with no interest in the Central Bank, for the purpose of restraining expansion in the upswing; this money is then returned to the companies selectively at the discretion of the Government, sometimes upon recommendation by the National Labor Market Board, during or in anticipation of a downturn in the economy or for special investment projects.

In the French case the fund is accumulated by the Provisional Levy introduced in December 1974 primarily as a measure to combat inflation. What role it may prove to have, if any, remains to be seen. A levy of 33 1/3 percent is based on the increase in the margin realized by an enterprise over the margin realized in its previous accounting period. These accumulated levies are released to the firms when the rise in the manufactures component of the consumer price index has not exceeded 1.5 percent for three consecutive months, and are available for investment purposes within a two-year time limit.

B. Recent Employment Emphases in Industry and Regional Policies

Every European country without exception has both regional and industry development policies, usually

under the direction of separate ministries, subject to varying degrees of coordination by planning institutions or by a triad or other ad hoc interministerial groups. These are essentially structural employment policies. During recent years there have been evidences of somewhat greater participation of Labor and Social Affairs ministeries in the formulation and implementation of these policy objectives.

In this brief report it is not possible even to capsulize national regional and industry policies in each of the countries. As elsewhere, the intent is to illustrate tendencies of particular relevance to antirecession policy by reference to a few countries where new developments have been reported.

There is, of course, a close correspondence between unemployment rates in underdeveloped areas and in industrial sectors most affected by the impact of structural change, and an overlap of industry and regional policies. It is not surprising that the underdeveloped or declining regions have a high incidence of unemployment, nor that if national industry policy has any rationality, it is directed to restructuring industrial sectors hard hit by unemployment, especially in European economies highly dependent on export demand and competition in international trade.

National employment measures in recession are not neatly compartmentalized. Thus we see governments using a combination of policy measures, including ad hoc rescue operations together with selective public works or emergency relief projects of the traditional sort, as discussed above. But in this section attention is directed specifically to the increased use of ongoing regional and industry subsidy schemes in the current recession. There are, of course, differences in time horizon, selectivity, resource allocation, and inflationary risks in these various policies. Wage subsidies, while considered here in terms of ongoing regional and industry policies, are discussed more generally in a later section in the context of anti-inflationary job creation.

Three critical interrelated employment issues have been raised in connection with the use of subsidies in a country's regional and industry policies: whether the financial assistance to private enterprises should be related directly to the number of jobs created or to the amount of the

private investment involved; what weight should be given to labor-intensive versus capital-intensive investment; and considerations primarily other than job creation--e.g., international competitiveness or regional social policy--as in the case of a proposal for a highly capital-intensive steel plant in the underdeveloped region of one of the European countries.

New initiatives have been taken in regional and industry policy for employment purposes particularly in the United Kingdom, Ireland, France, and the Netherlands, while Germany and Italy have made more active use of existing instruments. Sweden is currently resorting to a variety of wage subsidies for employment and training in its regional and industrial policy programs, especially in the case of its automotive and steel industries, which are now in difficulty. In "disadvantaged areas" employers are paid a subsidy equivalent to about 15 percent of annual wage costs per additional worker for two years and a reduced amount the third year.

France, with its long experience in economic planning since the establishment of what was originally called the Plan de Modernisation et d'Equipement, created a special Interministerial Committee for the Improvement of Industrial Structures in November 1974 to deal with urgent structural problems emerging in the recession. Chaired by the Minister of Finance, the Committee's task is to examine specific instances of structural difficulties in French industry and to propose solutions. Its mode of operation is to facilitate loans for indicated needs for the restructuring of individual enterprises or industrial sectors through the Economic and Social Development Fund or from banks. Its major action through midyear of 1975 was the restructuring of French automobile production through 15-year loans for Peugeot-Citroen and for the acquisition by Renault of the assets of other automotive firms.

In the Netherlands, where the current recession is considered as much of a structural as a cyclical phenomenon, industry and regional policy measures appeared both improvised and variegated, with a mixture of short and longer-term objectives. The existing investment premium scheme was extended to a broader list of geographic areas than before, and the subsidy payment was raised to 5,000 Guilders (about $1,350)

for each new job in expansion projects. In addition, extra funds were appropriated for assisting new industrial establishments, for large-scale expansion of existing enterprises, and for creating new industrial sites.

In the United Kingdom to date both the Ministry of Industry and the Ministry of Employment have shared responsibility for regional development policy. Both ministries have provided financial assistance to promote industrial growth and employment in underdeveloped and declining areas, aside from other policies to restrict employment in congested industrial centers. The principal instrument of the Department of Employment has been the Regional Employment Premium to reduce disparities in unemployment rates between the "Development Areas" and the rest of the country and, particularly, to make their manufacturing industries more competitive.

Under the Industry Act of 1972, the Department of Industry had a wider variety of financial aids for essentially the same purposes, but with relatively more emphasis on simply sustaining employment in three categories of assistance areas. Whereas the Regional Employment Premium administered by the Department of Employment is a subsidy paid to employers related directly to the number of workers employed by manufacturing enterprises, the Regional Development Grants that are provided, on a selective basis over a wider range of industrial sectors, are primarily related to the capital investment made by enterprises.

In mid-1974 the Regional Employment Premium was doubled with respect to male employees in light of the current situation, the total annual subsidies doubling to 220 million pounds (approximately $440 million) in respect to more than 1 1/2 million workers and 17,500 enterprises in the Employment Ministry's Development Areas. During the year 1974-75, Regional Development Grants, ranging from 20 to 22 percent of private capital outlays in the Industry Ministry's three categories of areas, totaled 210 million pounds, paid retrospectively upon performance, and are expected to lead to the creation of 58,000 jobs over the next five years and the "safeguarding" of an additional 40,000 jobs.

Some resolution of conflicting objectives and means in these policies in the United Kingdom was foreseen in the prospective creation of the National Enterprise

Board under the Industry Act of 1975, but what results there will be, if any, are at the moment unpredictable in the present political situation. Recently the government announced a "brave new economic policy" not to use public funds to prop up weak enterprises but shortly thereafter was confronted with the difficult question of the possible loss of 25,000 jobs in the Chrysler situation.

In Ireland the prerecession programs to promote industrial development were expanded and modified in the more difficult circumstances of the recession. The funds available for cash grants and loans have been increased by over 40 percent in the current fiscal year, and new tax incentives to ease liquidity problems were provided in the 1975 Finance Bill. In administration, more weight is now given than before to relating financial aid to new jobs created than to capital sums invested, but in a flexible fashion; from a flat grant of 25 percent in Dublin County to 50 percent in "designated areas" or 3,000 pounds to 4,000 pounds per job, whichever is less, in the case of smaller projects (about $6,000 or $8,000 per job). In larger industrial projects, grants are negotiated based on number of workers to be employed, location, and type of project. For foreign firms setting up establishments in Ireland, further assistance may be granted in the form of loan guarantees or interest subsidies, depending on individual circumstances. In this least developed northern country, the guiding principles of its industrial policy are stated to be international competitiveness and increased job opportunities.

C. Recession-Induced Incentives for Job Creation

With the stalemate in economic recovery and pessimistic forecasts for 1976, there was a developing interest in the possibilities of a more generalized use of wage subsidies as an anti-inflationary means for job creation--to get the economy off dead center--in a period of continuing constraints. As opposed to indiscriminate expansionary demand policies, the argument is that wage subsidies at the margin--i.e., for net additions to employment--will help to reduce wage costs and ease pressures on prices. At the same time, wage subsidies are viewed as largely cost-free to governments because of the savings in income-maintenance expenditures and tax payments from those reemployed.

Proponents see special advantage in this anti-inflationary means for increasing employment, particularly if it is substantial enough quantitatively to decrease unit labor costs by the gains in productivity accompanying a cyclical rise in the scale of output.

As noted above, wage subsidies related to net increases in employment have been used for regional policy purposes in a number of countries. On a small scale they have been used for many years in some countries to encourage the hiring of handicapped or other disadvantaged workers. What we have seen in 1974 and 1975 are a number of tentative, exploratory schemes to use wage subsidies for cyclical policy. Four temporary programs--in Germany, Ireland, and France, and more recently in the United Kingdom--are illustrative.

The German experiment is of special interest because the scheme was intended to coincide with the expected beginning of the upswing in early 1975 and to reinforce it, and was reportedly undertaken to avoid the kind of temporary setback in the early stage of recovery that followed the recession of 1967. It was initiated in December 1974 by the Federal Labor Institute with a cut-off date of April 30, 1975, when it was anticipated that there would be no further need for such a measure on the demand side, ordinarily regarded as outside the usual scope of German manpower policy. The subsidy was set at 60 percent of gross salary for six months to firms hiring additional workers from the ranks of those unemployed for more than three months in areas where the unemployment exceeded the national rate by a specified amount.

This wage subsidy measure was allowed to expire without renewal, while unemployment was continuing to rise, evidently more because of difficulties and inequities encountered in its administration (the seasonally erratic benchmark of December for determining additions to enterprise employment having been a complicating factor) than for lack of "takeup," which had been substantial and in line with expected results.

In the Irish experimental wage subsidy, the timing of the expected peaking of unemployment also was determinative in the setting of the period during which the scheme is to be in force. To enterprises

engaging additional employees, the Government offered an Employment Premium of 12 pounds per week ($24) to be paid for each such new hire from June 27, 1975, to March 31, 1976, in nonseasonal manufacturing activities; and to encourage early action by employers, the 12-pound premium was reduced to six pounds in the quarter ending June 30, 1976. The stated purpose is to make hiring of additional workers more attractive in cost terms.

Worked out in cooperation with the Department of Finance, which is responsible for economic policy, and the Department of Labor, which is responsible for its administration through the National Manpower Service, the Employment Premium is expected by the Irish authorities to be self-financing, for the premium is to be paid only to recipients of unemployment benefits.

Similarly in France, by the Decree of June 4, 1975, "to stimulate job creation," an Incentive Bonus was offered employers, timed in such a fashion as to induce prompt acceptance by employers. (The bonus was one of a number of new initiatives taken by the French Government at midyear that reflected increasing political and social anxiety over the continuing rise in unemployment and revised expectations as to the beginning of any recovery movement in the French economy.) For hiring from among three classes of persons, the employer is to receive for each newly created job (or jobs vacated by workers claiming pensions) a sum of 500F (about $110) per month for six months between June 5 and September 30, 1975. The bonus is reduced to 300F during October through the termination of the scheme on November 30, 1975.

The French scheme has broader applicability than have the temporary wage subsidies in Germany and Ireland. Financing was made available for 100,000 new hires from among three specified groups: persons unemployed for more than six months, first-time job seekers, and youth completing their national service. They are hired under indefinite wage contracts or for a minimum period of at least one year.

Late in the summer of 1975, the United Kingdom introduced a wage subsidy scheme for youth who have been jobless since leaving school, as part of a new series of measures to help youth. Employers are paid 5 pounds (about $10) per week for a period of 26 weeks for each unemployed school leaver. The Department of Labor is reported to regard this subsidy as a factor in the employment of more than 25,000 school leavers in October and November.

No information is at hand as to the outcome of the Irish or French wage-subsidy experiments.

D. Active Manpower Policies for Training and Mobility

Generally there has been more emphasis, whatever quantitative weight may be attached to it, on training and retraining than in past recessions. Appropriations for training activities probably were increased in real terms in 1974-75. In part this reflects the intention in some countries to substitute training benefits for payment of unemployment compensation benefits, and also to reduce the official unemployment count. Of the various alternatives to unemployment or employment status in the recession--including withdrawl from the labor force for reasons of personal preference, resort to disability benefits, prepension schemes, or retirement--there is growing appreciation of the utility of training and retraining during recession for short-and-medium-term labor market policy purposes. One anti-inflationary objective is to meet current shortages and imbalances on the labor market evidenced by persisting (if declining) job vacancies. Another is to help avoid potential bottlenecks in the upswing and in the restructuring of the economy.

The recession has reinforced the use of training as an instrument of contracyclical employment policy. Before the recession many governments had come around in principle to the view that training activities should rise not fall in recession (because "no jobs are available"), and Sweden at least had adopted this view in practice in its "labor market training" program. The high cost of unemployment benefits during an extremely severe and long recession has made the expansion of training and retraining an attractive policy substitute for simple income maintenance. In this connection there is a growing tendency for training, on a case-by-case basis, to become one of the preconditions for continuing receipt of unemployment benefits. In-plant training is sometimes required where governments subsidize employers for maintaining workers on the payroll under benefit schemes for short-time work or temporary layoff.

With the worsening of job prospects for school leavers and young workers, the expansion of training opportunities for youth has come to be seen as a preferable alternative to their retention in school. While plans for youth training were developed or

initiated on some scale in 1974, schemes for large-scale training opportunities for youth proliferated in an atmosphere of social crisis in 1975 as recovery failed to get underway.

Institutionally, Germany and Sweden were the best prepared countries to expand training in recession. Little needs to be added to what is known about contracyclical training in the latter country. The "labor market training program" of the National Labor Market Board - its numbers of trainees declined during Swedish prosperity to 41,000 in May 1975 - has a capacity for 60,000 (expandable to 70,000) as the occasion arises. Grants to employers for "internal labor market training," where there is a risk of layoffs, has been raised currently to 8 SK (about $2) per day.

In the ambitious ongoing program of the Federal Labor Institute in Germany, funds were increased in 1974 to finance retraining and advanced training for the unemployed as a useful alternative to unemployment. There had been criticism that the Institute's training program catered to those least in need of such assistance, and that it was failing with respect to its original intentions relating to training for shortage occupations and for individuals threatened with unemployment.

Partly because of the Institute's budgetary difficulties in 1975 as its Reserve Fund neared depletion, there has been some tendency to restrict applicants to the unemployed or those most likely to become unemployed. Most of the trainees in early 1975, however, were still concentrated in advanced training as against retraining and in the 25 to 34 age group (youth without two years employment being ineligible). The Institute, however, finances preparatory programs and basic training courses for juveniles and unemployed youth. Its training funds now approximate 2.7 billion DM annually, or more than $1 billion, with a capacity for about 450,000 trainees.

New initiatives in training have been introduced in the smaller countries to meet special needs for training in the recession. Training facilities in the Netherlands have been expanded for all categories of unemployed persons. In addition, the Government has introduced a trial program for short, specialized retraining courses in and for individual enterprises,

with grants to the employer and a bonus to unemployed trainees of 30 Guilders (or $11) above unemployment benefits, in agreement with the Federation of Industrial Insurance Boards. In Norway, to counter layoffs, the state pays a grant to employers covering 50 percent of wages and social contributions of workers in training, who are paid full wages, with training activities segregated from ordinary production in approved training programs. Special training programs have been introduced for regions of high unemployment resulting from layoffs or dismissals by a major employer.

The United Kingdom was less prepared institutionally than were the other large European countries. Its quasi-independent, quasi-tripartite Manpower Services Commission, under the wing of the Department of Employment, had been established under the 1973 Employment and Training Act. The two executive arms of the Commission, the Training Services Agency and the Employment Services Agency, were confronted by the economic crisis upon establishment in April and October 1974, respectively. The Training Services Agency immediately acted to draw up contingency plans, and early in 1975 urged training-employment schemes upon the government in anticipation of the deteriorating employment chances of the new cohort of 600,000 school leavers; it also laid plans to meet the occupational requirements for North Sea Oil exploitation.

Budgetary funds for training had not been cut by the Chancellor in April, and the Prime Minister in July informed the Parliament in general terms of new measures to expand training opportunities. Subsequently, the Chairman of the Manpower Services Commission delineated the general character of the new initiatives in the public and private sectors. Yet despite the social urgency that is felt about the need to provide youth with alternatives for unemployment, it does not appear that the expansion indicated (under several new programs) will provide training for more than an additional 30,000 individuals in 1976.

France, long troubled by the slowness in the reform of its education and training establishment and mindful of the role of youth in the "Events of May" 1968, followed one "priority program" for training 50,000 young job applicants in 1975 with a second emergency measure--"to improve the vocational training of

young people." The earlier scheme was for applicants 16 to 20 years of age without a trade certificate who had left school in the 1973-74 academic year. They will receive generally short training courses in all categories of employment, usually in public training facilities, and will be paid 320F (about $72) per month.

As the outlook worsened, the Government, by the Decree of June 4, 1975, sought to provide training within industry for youth from 16 to 25 years of age in double the number of the earlier program. Under the June 1975 scheme, the employer contracts with the individual youth to pay him the going wage in the trade for full or part-time training, and the Employment Service contracts with the employer to reimburse him: (1) at the going minimum wage for training time, (2) at a 30 percent rate for non-instructional time, and (3) 6 F per hour for instruction provided on the premises ($1.40).

The development of active manpower policies during the sixties had produced many grant systems to provide mobility incentives for individuals; these systems tended to be extended during 1974-75. One of the few major innovations reported, other than new programs mentioned in other contexts, was a temporary German scheme to encourage geographic and occupational mobility in the spring of 1975--a companion measure to the job-creation grants to employers to forestall any possible setback in the recovery that was then expected to be well underway. While operative this special mobility measure paid a flat sum to more than 60,000 unemployed persons in areas with unemployment above the national average (by a specified percentage) who demonstrated special efforts to become reemployed--e.g., change in job location, reduced earnings, or approved training. For the stated purpose to prevent long-duration joblessness, a flat grant of 300 DM was given to those who had been unemployed three months, or 600 DM ($228) for those without work for more than six months. Not intended as a permanent measure in view of other existing measures for geographic and occupational mobility, and perhaps for other reasons, the scheme was terminated on its expiration date at the end of April despite its substantial "takeup."

In addition to the new emphasis on training, other recession initiatives to improve manpower service delivery systems were varied but along traditional lines, e.g., to increase staff services and to reorganize employment services agencies for greater efficiency, including more self-service programs, increased dissemination of job-openings information, and intensified solicitation of employers for job vacancies.

IV. SUMMARY AND CONCLUSIONS

This survey has focused on the employment-policy response of Western European countries under varying macro policy emphases during a recession more severe and prolonged than anticipated--with no clear evidence by the fall of 1975 of the beginning of any substantial recovery movement.

It has aimed to describe what has taken place and what innovations have been observed that are illustrative of major tendencies in employment policy within the general interest, if not the immediate responsibility, of labor market or manpower authorities, not to prescribe what country employment or manpower policy should be.

The European experience has some relevance to American policy despite differences in circumstances, policy preferences, and institutional arrangements. But there is no thought that European experience, varied as it is, can lead directly to policy recommendations for the United States. What suggestive value the survey may have is for the reader to judge; some indications of its relevance may be evident in this brief summary.

The defensive strategy of maintaining the political and social conditions for a vigorous anti-inflationary macro policy proved extraordinarily expensive for public budgets. The heavy allocation of funds for income maintenance and job security has tended to limit expenditures for more expansionary measures as countries found themselves compelled to shift the weight of priority in macro policy in the direction of maintaining or increasing employment. Moreover, the high wage-replacement rate of income maintenance measures became increasingly worrisome because of the disincentive effects of thse measures, which tended to frustrate measures to increase employment.

So far, the easing of monetary and fiscal policy has failed to have substantial effects on private investment or consumption, perhaps for reasons peculiar to the European situation. The high costs of benefit payments and subsidies to prevent the collapse of industry structures with accompanying bankruptcies and mass dismissals on the one hand, and reduced revenues from declining levels of economic activity on the other hand, have resulted in unintended budgetary deficits without the stimulative effects desired from the move to a more expansionary policy.

The widespread European fear of public deficits and possible inflationary results have given rise to some lack of confidence--and constraints on whole-hearted expansionary policies by governments--which is unfavorable for an investment or consumption-led recovery. Perhaps in consequence, most European countries are waiting for recovery elsewhere, to revive export demands, and are watching the incipient recoveries in the United States and Japan with hope. An insufficiency of investment funds or consumer incomes and savings is not the impediment to an upsurge in internal demand.

Notwithstanding the essentially defensive employment policies at the expense of a better allocation of public expenditures, some constructive innovations and policy tendencies can be observed in the recession experience to date.

1. Unemployment compensation and other benefit systems have been refashioned in various ways to serve social policy purposes in a more discriminating way. This is evident in the differential treatment given special groups according to age, their relative capacity for employment or reemployment, the accidence of residence in underdeveloped areas or declining sectors of structural change, etc., as well as in the extension of coverage for workers in more casual employments or less organized sectors. There is, however, for the emergency at least, little indication of full-scale rationalization of unemployment compensation systems; in fact, the piecemeal recession measures postpone such efforts.

2. The apparent lesser reliance to date on traditional public works or emergency relief projects than in past recessions may have constructive implications for public works policy in recession. There is the possibility that these projects can be used in a more selective and discriminating way than in the past, while the higher priority public investment projects in government's planned programs (presumably more urgent than the postponable projects on a public works shelf) for restructuring industrial sectors or developing underdeveloped regions can be maintained or accelerated. This should prove a more desirable long-term public investment approach for stabilizing the construction industry than a stop-and-go countercyclical approach to public works policy.

3. Wage subsidies related to net increases in employment are currently receiving favorable consideration as a policy instrument that has advantages in comparison

with subsidies or fiscal incentives for private investment generally, much in the same way as training is seen to be a constructive alternative to simple income maintenance.

4. Particularly in view of the inherent risks of wage and cost increases in the construction and engineering industries, the new emphasis on wage subsidies related to net increases in employment rather than to investment per se is viewed as an anti-inflationary way to increase jobs, by reducing wage costs at the margin, under conditions of continuing inflationary risks.

5. Some central governments have moved to fill budgeted positions, and the overall level of government employment may be increasing. As general policy becomes more expansionary, local governments, which have been seriously affected by decreasing revenues, may receive more financial support from capitals, especially for selective relief projects, including public service and community projects, and local governments may be under less pressure to curtail employment. This suggests, as in the case of public works policy, that the stabilization of employment in the public sector is preferable in recession to stop-and-go policies in public hiring.

6. Training and retraining has been used on an unprecedented scale in the current recession, and is increasingly regarded as a normal part of contracyclical policy, both as a constructive alternative to passive receipt of unemployment benefits and for increasing worker mobility for filling current job vacancies and for meeting occupational skills essential for emergency requirements and for modernizing European industry for competitiveness on world markets.

7. The youth employment problem is regarded as increasingly explosive socially and politically. Some crisis-type training-employment measures have been introduced but, except possibly in France and the United Kingdom, on a scale less than adequate as the job outlook continues to be poor. The effectiveness of various public expenditure and subsidy schemes remains to be observed and evaluated.

8. Restrictions on immigration and employment of foreign workers is seen, in the long run, as more of a social than a purely economic problem. Less of a return to home countries has taken place than expected. The current policy debate on the subject in Europe suggests the need for improvement in working conditions and wages

in occupations unattractive to nationals--otherwise the industrial countries will continue to need foreign workers on a large scale, even though immigration is expected to slow down--as well as the need for further measures to assist social integration.

9. In employment policy discussion in Europe there is a continuing undercurrent of concern for the effect of all factors (including social security contributions) that raise real wage costs and reduce the demand for labor. Particularly in open economies highly dependent on international trade, as in the Netherlands, an apparent secular trend in real wage costs (nominal wage level in relation to price of output) is seen as a basic cause of a continuing rise in structural unemployment. In a number of instances, countries have taken measures to reduce wage costs, waiving social security contributions, for example, to stimulate employment in particular situations during the recession. Wage subsidies or other measures have been used on a larger scale. The question is one that is likely to receive increasing attention in the recovery and postrecovery years.

10. Although in the short-run Europeans are disturbed by the disincentive effects of high wage-replacement benefits, there is increasing concern as to the longer run effects of the flight to job security during the recession vis-a-vis the mobility essential for structural changes if Europe is to recover and remain competitive in world markets.

11. This fact underscores the importance to be attached to the continuing but neglected efforts of the labor market and manpower authorities to maintain the prerecession development of an active manpower policy, with its emphasis on mobility and adaptation to structural change, and to their current efforts through wage subsidies and selective labor market measures to seek ways to increase output and employment in a noninflationary way to offset the deficiencies of unselective demand-management policies.

12. Despite what happened in 1974-75, there is little evidence as of now that the Europeans are any less committed to the objective of full employment than they were before. The fact is, however, that in the circumstances of the times, they accepted without taking to the streets the necessity for governments to pursue deflationary policies at the cost of employment; whereas as late as 1970-71 there was a public outcry at the very suggestion of this course of action to combat inflation.

Perhaps the most that can be said now is that it is too early to say whether the full employment objective, whatever the rhetoric, will fall within the same statistical range or have the same conceptual meaning, ill-defined as it may be, as it did in the postwar years; or whether each of the three competing objectives of full employment, price stability, and free collective bargaining may be somewhat relaxed. The risk is that living with high unemployment for as long as now expected will lead to less emphasis on high employment as a central goal of social and economic policy.

V. STATISTICAL APPENDIX

Table of Seasonally Adjusted Quarterly Unemployment Rates in Selected Countries, 1974 to 1975

	1974				1975		
	1Q	2Q	3Q	4Q	IQ	IIQ	IIIQ
Belgium 1/	2.7	2.9	3.2	3.6	4.3	5.1	5.3 *
Denmark 1/	0.7	1.6	2.5	2.8	3.9	4.3	4.5 *
Germany 2/	1.6	1.9	2.3	2.9	3.2	4.0	4.6 *
France 2/	2.8	2.8	2.9	3.9	4.6	5.2	5.5 *
Ireland 1/	5.8	6.1	6.7	8.0	9.2	8.9	9.0 *
Italy 2/	3.0	3.0	3.1	3.3	3.0	4.0	3.6
The Netherlands 1/	2.7	2.9	3.2	3.5	3.9	4.3	4.7 *
Sweden 2/	2.2	2.1	2.0	1.7	1.5	1.8	1.6
United Kingdom 2/	2.8	2.8	3.1	3.2	3.5	4.3	5.6 *
Addendum:							
United States 2/	5.1	5.1	5.5	6.6	8.3	8.9	8.4
Canada 2/	5.4	5.3	5.4	5.6	7.0	7.3	7.2

Sources: 1/ Commission of the European Community, Annual Report on the Economic Situation in the Community, Strasbourg, 15 October 1975. Number of unemployed as percentage of civilian labor force; seasonally adjusted figures for final month of each quarter. Because of disparities in definition, the series reflect changes wihin each country but are not comparable as between countries.

2/ United States Department of Labor, Bureau of Labor Statistics, Washington, December 1975. The italicized figures from this source may be viewed as approximate indicators of seasonally adjusted quarterly rates under U.S. concepts, and roughly comparable as between countries.

* Preliminary Rates

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PUBLISHED REPORTS OF THE NATIONAL COMMISSION FOR MANPOWER POLICY

- An Interim Report to the Congress of the National Commission for Manpower Policy: *The Challenge of Rising Unemployment*, Report No. 1, February 1975.
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- *Manpower Program Coordination*, Special Report No. 2, October 1975.
- *Recent European Manpower Policy Initiatives*, Special Report No. 3, November 1975.

The above documents are available from the Commission's offices at 1522 K Street, NW, Suite 300, Washington, D. C. 20005.